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SENSITIVE
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SUBJECT: DNO EXPORT PIPELINE AWAITS GREEN LIGHT

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PROPRIETARY INFORMATION

This is an Erbil Regional Reconstruction Team message.

Summary

¶1. (SBU) RRTOff met May 15 with Tarik Abdullah Chalabi, General Manager of Erbil-based Norwegian oil subsidiary, DNO Iraq AS, to discuss DNO's planned Tawke pipeline, completion of which apparently awaits the green light from Kurdistan Regional Government (KRG) authorities, and the quality and pricing of DNO's output from one of its two fields in the Kurdistan Region. DNO is producing 20,000BBL/day from its Tawke field in Dohuk province, selling off 5,000-7,000BBL/day of the 23-27 API oil to a local topping plant for conversion into kerosene and diesel for local use, and storing the rest.

¶2. (SBU) Output from DNO's newer Hewler field, in an area administered by Erbil province, is being assessed by laboratories in Abu Dhabi, but Chalabi expected the specific gravity of the Hewler field to be in the 30s API. Given increasingly higher international oil prices, Chalabi appeared unconcerned over the lower prices that DNO's lower quality (Tawke) oil was garnering, arguing that the company was satisfied being able to fetch \$10-20 below market price, and suggested the situation would dramatically improve when the Tawke pipeline came on line. End summary.

Pipeline Status

¶3. (SBU) In a May 15 conversation with RRTOff, Norwegian subsidiary DNO Iraq AS General Manager Tarik Abdullah Chalabi noted that DNO's 12-inch, 43-km pipeline from Tawke to the metering station at Faysh Khabur (east of Harbur Gate) was nearly complete, but that the company was awaiting resolution of "political questions" on the hydrocarbon legislation before finalizing the link. Once complete, it will link the Tawke output to the Bayji-Kirkuk national pipeline. Chalabi indicated that DNO was ready to complete the pipeline as soon as DNO "gets the green light from the KRG." Chalabi said he expects some resolution in the very near term, citing pressure from the "20 companies with PSAs (production sharing agreements)." He offered no detail on where the pipeline actually stops or what remains to be connected.

Oil Quality

¶4. (SBU) Chalabi indicated that the quality of DNO's Tawke output is between Arab Regular and Arab Heavy; that is, 23 API at the shallow point and 25-27 API at the deep point. The Hewler structure output

was still being assessed at a laboratory in Abu Dhabi, but was believed to be in the 30s API when it would begin producing.

Output & Pricing

15. (SBU) When asked about the May 14 Reuters story reporting flagging DNO stock prices linked to DNO's low Iraq earnings (only \$62/BBL for its Tawke output January to March 2008), Chalabi was unconcerned about the lower quality/value of the oil DNO is producing from Tawke. He suggested that things would improve once the pipeline was complete, and DNO was able to begin exporting the oil to Turkey. He recognized the ability to produce larger quantities of benzene (for instance) from higher API oil, but suggested that DNO was not interested in competing at the higher end (e.g., jet fuel) at this time. DNO might ultimately be able to realize \$106/BBL (compared to the market \$126/BBL) for the Tawke output, and Chalabi expected the market price to rise to \$150/BBL by year's end. His reasoning was that if DNO was able to earn \$10-20 below the prevailing market price, it would still do quite well given current and projected prices.

16. (SBU) Additionally, DNO's operating and labor costs were significantly lower in Iraq than elsewhere in the world. Chalabi's extensive contacts in the hydrocarbon sector have enabled him to hire nearly all local labor (engineers and unskilled) on a 50-day on and 50-day off work structure. He has also maintained reserve employees ready to step in as others leave and indicated that DNO rarely used contractors. Of the 20,000BBL/day that Tawke is producing, DNO is selling 5,000-7,000BBL/day to a local topping plant for conversion to kerosene and diesel. The company was also

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constructing its own topping plant in order to produce diesel for its own operational use (replacing the need to purchase on the black market) and selling the excess.

Background and Biographic Notes

17. (SBU) Chalabi indicated that DNO Iraq AS was one of three subsidiaries of DNO (with others in Yemen and Mozambique). DNO has PSAs for two fields signed in April 2004: Tawke and Hewler structures. The Tawke field (Dohuk) stretches from Batufa to Tawke and has 12 wells, all of which are producing to total output of about 20,000BBL/day (full capacity was purportedly much higher). The Hewler field (in an area administered by Erbil governorate) is smaller and drilling is just west of the Great Zab river, and not yet producing. It has two wells; one proven, and the other that is still being appraised.

18. (SBU) Norwegian Ambassador Mette Ravn (also accredited to Jordan) stressed to RRTOffs during a March visit to Erbil that DNO was operating as a private company. Noting that the GON and USG positions on hydrocarbons were aligned, she underscored that DNO was operating in the Kurdistan Region of Iraq without any particular GON sanction.

19. (U) Chalabi is one of 12 local staff in DNO's Erbil office, with staffing up from three when the company opened in 2004. He is a geophysicist by training with 27 years of experience with INOC, and with a significant number of contacts in the industry. He began working for UN/FAO in 2003, focusing on water exploration, and joined DNO after the company's PSAs were signed. Chalabi lives in Erbil, and travels to Dohuk two-to-three times per week.

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